

TREASURY NEWS

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STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN A GLOBAL FORUM ON FIGHTING CORRUPTION: SAFEGUARDING INTEGRITY AMONG JUSTICE AND SECURITY OFFICIALS

It is a pleasure to speak with you today. I believe it is enormously important that so many of you have traveled long distances to be here in Washington for this conference, convened by the Vice President, on the importance of combating corruption.

The fact that so many world leaders, representing some 80 countries, and nearly as many multilateral and non-governmental organizations, have gathered here to discuss the importance of combating corruption demonstrates exactly that, the importance of this issue. I can remember not so long ago when discussing corruption in any conference like this would have been unthinkable, taboo. On a personal note, I was in Kenya a few months ago and gave a speech on corruption. And I thought it was remarkable, regarding both the level of interest and the wide ranging discussion we held afterwards, which included comments by students, government officials, and representatives from non-governmental organizations about the impact of corruption on their society. As a result of the leadership of the Vice President, and the work of others in this Administration, of organizations like the World Bank, the IMF, the OECD, and groups such as Transparency International, there is an increased international awareness of the corrosive effect of corruption and real focus on strategies to combat it.

Corruption is very much a social and political issue. An accountable, responsive and honest government is central to a government's legitimacy and, ultimately, to political and social stability. As evidence of this, there are many instances of governments that have lost public support in part because of corruption.

Today I wish to focus on how corruption is also very much an economic issue. Then I will discuss how sovereign nations -- in both the developing and industrial world and through the international institutions -- can address this issue.

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The backdrop for my remarks is the development of the global economy over the last few decades. **Liberalized** trade and financial flows have contributed to increased investment, output and efficiency, all of which has benefitted millions of people around the globe. A central lesson of this period - and it is a lesson that holds true despite the financial crisis of the last year and a half - is that, in order to succeed in the global economy, nations must be able to attract private capital to foster growth. There are many dimensions to an environment conducive to attracting private capital -- sound macroeconomic policies, a strong financial system, openness to trade and investment, and an educated work force to name a few. And among these dimensions I would include here is good governance, in particular, effectively combating corruption.

Corruption disrupts normal business and public policy decision-making by benefitting the few at the expense of the majority. It distorts the allocation of financial and human resources to inefficient uses often inconsistent with a nation's social, political and economic objectives and needs. It discourages small business, entrepreneurs, and consumers who simply cannot afford the costs of bribery. It discourages foreign investment. And it damages the respect for law and public and financial institutions, undermines the credibility and effectiveness of both elected and appointed government officials, and creates an environment conducive to crime in the private sector, including organized crime.

The economic dimension of corruption has been demonstrated over the last year and a half, as the world has experienced a financial crisis. In some countries, corruption increased vulnerability to crisis. In others, corruption was a significant impediment to implementing the necessary response and a major obstacle to restoring the confidence that is so critical to countries' recovery and stability.

In some countries, corruption is so pervasive it can be a threshold economic issue that undermines a country's ability to succeed in the global economy.

Of course, no region or nation -- developed or developing -- can claim purity in this area. Corruption exists everywhere. But corruption is especially troubling in developing countries. By diverting the scarce resources that are needed so badly for critical priorities such as health, education and housing, and more generally, the impact on a less developed economy can be so much greater.

Against that backdrop, it seems to me there are at least five elements critical to effectively combating corruption.

First, nations must have good, clear laws and regulations that can be easily and reliably enforced. This, in turn, requires courts that are adequately funded and independent of political pressure, as well as honest, well-trained and adequately compensated regulators, judges, prosecutors and law enforcement officers. All of this is a very tall order, especially in poor countries that can not afford proper training or adequate compensation, and this puts an even greater onus on the international community to help.

Second is to eliminate unnecessary controls on the economy and reduce state involvement in the economy. Reducing both the scope and the administrative discretion of government reduce the potential for corruption. For example, the fewer licenses that need to be granted and the fewer approvals that need to be obtained, the fewer opportunities there are for bribes to be demanded and paid.

Third is to create a well-supervised, soundly regulated, and competitive financial system that operates on a commercial basis and is not subject to credit decisions based on personal or political connections.

Fourth is to increase the transparency and accountability of government operations and decision-making. Shining light on the activities of government by publishing information about its operations and decision making and by including public participation in those decisions, is a powerful deterrent to corruption. Let me also add that a free and vibrant press can make an enormous contribution here.

Fifth and finally is to create a sound civil service system with strict conflict of interest rules, appropriate sanctions for malfeasance, and adequate compensation for employees. As I have already mentioned, this last point may be particularly difficult for developing countries, which may lack the resources to pay its civil servants adequate salaries. In some countries, it may be desirable to reduce the size of the bureaucracy to enable the country to pay higher wages.

A key part of strengthening the civil service system is creating strong, independent anti-corruption investigative units with real authority and power. As I said earlier, no nation is immune to corruption. In the United States we have placed a strong emphasis in our government on creating units within the government, such as Inspectors General, to prevent and combat corruption.

While much of the responsibility for putting in place these five elements to combat corruption lies with developing nations, there is much the industrial world can do.

To begin, developed countries must deal directly with their own involvement in developing country corruption. Corruption is a two way street and for every bribe taker, there is a bribe giver. In 1977, the United States passed the Foreign Corrupt Practices Act, which outlaws bribery by our businesses and investors in other countries. For the last several years, we have been urging the OECD countries to do more to discourage bribery. The OECD Bribery Convention, which was signed in December 1997, and went into effect just a few days ago, was a critical step in recognizing the responsibility of industrial countries to discourage the giving of bribes. While most of the OECD have ended the tax deductibility of bribes, there are still several OECD countries that have not, and they should do so forthwith. We urge vigorous monitoring of the implementation of the Convention, and would like to work more work in the OECD Export Credit Participants Group to encourage increased efforts by official export credit agencies to eliminate bribery.

In addition, industrial nations can help by providing technical assistance to developing nations who are building the sorts of institutions I mentioned that are critical to combating corruption. Treasury has created a specific program to work in this area - with Treasury's help, for example, the government of Bulgaria has developed a national strategy to combat corruption, passing a financial disclosure law and developing an internal corruption investigative unit within the Ministry of Interior among other activities..

Separately, the international financial institutions -- including the International Monetary Fund, World Bank, and the Regional Development Banks -- have been active in combating corruption and should take further steps. The IMF has developed a code of fiscal transparency which calls for governments to accurately track and disclose expenditures and thereby helps hold them accountable for their spending decisions. However, we believe the IMF should include more explicit consideration of weakness in governance in all Fund programs and provide assistance conditioned on efforts to confront corruption.

The Multilateral Development Banks are in a unique position to fight corruption. With annual disbursements of about \$50 billion per year, the MDBs can have real impact through the conditions they place on loans and with the standards they set for themselves. Recently, the World Bank and the African Development Bank agreed to put in place systems linking new lending to performance on key governance and corruption criteria. The World Bank is providing direct assistance for anti-corruption programs in many countries and has strengthened its own international anti-corruption systems.

But the IFIs still need to do more to help countries help themselves combat corruption. The IMF needs to raise the bar still farther on transparency in member countries. The MDBs need to establish clearer and more uniform procurement rules and documents of the highest standard. All of us need to work with the MDBs and IMF to focus their efforts more on providing appropriate incentives and technical and financial assistance to help countries develop anti-corruption laws and anti-corruption efforts.

Finally, and maybe most fundamentally, the international community is gaining a consensus that it is important for the IFIs to target development assistance to those countries that can use it the best. In making judgements about assistance, corruption is -- and must be -- an increasingly important factor for the IFIs. Similarly, it is very important for the IFIs to cut off assistance when corruption undermines the viability and effectiveness of their reform programs. Scarce development resources should not be wasted in countries that are not prepared to confront and combat corruption seriously, but rather should be channeled to countries that will use the assistance most effectively.

Let me conclude by saying again that it is extremely important you came to Washington to discuss this critical issue and that the Vice President and so many other world leaders have exercised their strong leadership on this issue. As I said earlier, conferences like this one demonstrate that with intensified international focus, corruption is becoming a mainstream issue. In fact, just by shining a light on corruption, and its corrosive effects on a society and

an economy, I believe we make progress in demonstrating how behavior that was once tolerated, is now unacceptable and that those people who engage in it are subject to condemnation. As a byproduct of that process, we may thus deter that behavior from happening in the first place. But this is just a first step, albeit an important one. All of us must continue to work together -- developed and developing nation, large and small, and the international financial institutions - to combat corruption. And by doing so, I believe we will lay the groundwork for stronger economies around the world, and benefit all of us. Thank you very much.